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Mission Creep: The Fed’s Foray Into State and Local Debt

The Fed’s scheme to offer credit to states and municipalities was fiscal policy in disguise, turning local mismanagement into a national problem.

ive years ago, The CARES Act authorized the Federal Reserve to create emergency lending facilities in the name of aiding the US economy during the COVID-19 economic downturn. In a 2021 appraisal of the Fed lending facilities, several AIER Sound Money Project (SMP) scholars observed:

> *Although some facilities likely helped to promote general liquidity, others were primarily intended to allocate credit, which blurs the line between monetary and fiscal policy. These credit allocation facilities were unwarranted and unwise.*

One such facility was the Municipal Liquidity Facility (MLF), which loaned money to state and local governments. In my recent AIER White Paper “Enabling Bad Behavior,” I examined the two entities that took loans from the MLF: the State of Illinois and the New York Metropolitan Transportation Agency (MTA). I find that, while the MLF loans do not show any effect on the fiscal health of these entities during or after 2020, the MLF distorted the boundary between fiscal and monetary policy.

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by Thomas Savidge

October 2, 2025